

Message Text

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ACTION EB-07

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NSAE-00 NSC-05 PA-02 AID-05 CIEP-02 SS-15 STR-04

TAR-01 TRSE-00 USIA-15 PRS-01 SP-02 OMB-01 IO-10 /111 W
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SUBJECT: INVESTMENT CLIMATE IN SOMALIA

REF: STATE 165596

1. WHILE THE SOMALI GOVERNMENT'S (GSDR) POLICY IS TO ENCOURAGE FOREIGN INVESTMENT, NATIONALIZATIONS AND EXPROPRIATIONS OF FOREIGN FIRMS HAVE SERVED TO MAKE POTENTIAL INVESTORS WARY. THE ABSENCE OF CLEAR GUIDELINES FOR FOREIGN INVESTMENT AND THE PRIVATE SECTOR'S GENERALLY DIMINISHED ROLE IN THE ECONOMY HAVE ALSO DISCOURAGED CAPITAL INFLOWS.

2. IN THEORY, FOREIGN INVESTMENT IS GOVERNED BY A 1960 STATUTE (AMENDED IN 1968) WHICH, AMONG OTHER THINGS, LIMITS REPATRIATION OF EARNINGS TO 15 PERCENT OF NET PROFITS. THIS LIMITATION SO DISCOURAGED FOREIGN INVESTORS THAT THE GSDR WAS FORCED TO NEGOTIATE UNIQUE AGREEMENTS WITH EACH FOREIGN CONCERN AS AGREEMENTS OUTSIDE THE PURVIEW OF THE 1960 LAW.

3. IF THE GSDR WERE TO MORE ACTIVELY ENCOURAGE OUTSIDE INVESTMENT, IT WOULD BE INDUSTRIES ENGAGED IN PROCESSING AND MANUFACTURING PRODUCTS BASED ON INDIGENOUS RAW MATERIALS (E.G., MINERALS AND PETROLEUM, LIVESTOCK, HIDES AND SKINS, BANANAS AND SO FORTH).

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IT IS POSSIBLE, TOO, THAT THE GSDR WOULD BE WILLING TO NEGOTIATE

DIRECT FOREIGN INVESTMENT IN LIVESTOCK AND THE AGRICULTURAL SECTOR,
WITH THE GSER RETAINING MAJORITY OWNERSHIP UNDER JOINT VENTURE
SCHEMES (SUCH PROJECTS HAVE BEEN NEGOTIATED WITH LIBYA).

4. FOREIGN ENTERPRISES PRESENTLY ARE REQUIRED TO BE 95 PERCENT
SOMALI-STAFFED. APPLICANTS ARE SELECTED BY A COMMITTEE IN WHICH

THE MINISTRIES OF LABOR AND COMMERCE AND THE NATIONAL SECURITY
SERVICE ARE REPRESENTED ALONG WITH A REPRESENTATIVE OF THE FIRM
WHO HAS A SINGLE VOTE IN COMMITTEE PROCEEDINGS. ON THE MORE
POSITIVE SIDE, SOMALI LABORERS ARE SAID TO BE AMONG THE HARDEST
WORKING AND DISCIPLINED IN ALL AFRICA.

5. SOMALIA HAS BEEN VERY HARD HIT BY DROUGHT THE PAST TWO
YEARS AND THE GOVERNMENT HAS CHanneled THE BULK OF ITS DOMESTIC
RESOURCES AND FOREIGN AID RECEIPTS INTO RELIEF AND RESETTLEMENT
PROGRAMS. SHORTAGES OF FOREIGN EXCHANGE, BROUGHT ABOUT MAINLY
BY INCREASED PRICES FOR PETROLEUM AND OTHER IMPORTS, HAVE FORCED
THE GSDR TO LIMIT IMPORTS TO ONLY THE MOST ESSENTIAL COMMODITIES
AND CAPITAL EQUIPMENT. THE GOVERNMENT ALSO CONTROLS THE
COUNTRY'S PRINCIPAL EXPORTS (LIVESTOCK, HIDES AND SKINS AND
BANANAS). DOMESTICALLY, THE GSDR SETS PRICES ON NEARLY ALL
ESSENTIAL CONSUMER GOODS.

6. INVESTMENT STATISTICS:

A. TOTAL U.S. DIRECT INVESTMENT: US\$ 7 MILLION --
PETROLEUM \$ 7 MILLION -- (OTHER SECTORS NIL)
B. DIRECT INVESTMENT OF ALL COUNTRIES: TOTAL -- US \$ 65
MILLION (EST.) -- ITALY -- \$ 53 MILLION -- FRANCE -- \$ 4 MILLION --
OTHERS -- \$ 3-10 MILLION

(SOURCES: INDUSTRY REPRESENTATIVES AND FOREIGN DIPLOMATIC
MISSIONS.).
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